



A DIVISION OF

Worldwide Facilities, LLC

Artisan Contractors: Insuring Specialty Construction Risk Clients

*Help your artisan
contractors understand
and mitigate their
unique risk exposures*

WHITE
PAPER



Today, the construction industry is booming. And whether it's new construction or a remodeling or renovation project, the demand for artisan contractors is on the rise. However, unlike general contractors (GCs), specialty or artisan contractors have unique liability risk exposures that are frequently overlooked and can be difficult to manage.

From construction site builders' risks to transferred liability from the GCs they work under, it's important to educate your artisan contractor clients about potential exposures to ensure they have the right coverage. In this white paper, we'll look at the risk factors faced by artisan contractors and how you, as an insurance professional, can contribute to the success of their business.

WHAT IS AN ARTISAN CONTRACTOR?

With a solid understanding of general contracting, artisan contractors take a more specialized role in the industry, focusing on a specific area of a project. That is why it's not uncommon for GCs to enlist the help of this type of industry professional on larger construction projects that require a specific skill set, such as carpentry, roofing or electrical work. Artisan contractors can also work on their own projects rather than being contracted out by GCs.

Definition of an Artisan Contractor:

An artisan contractor does work in carpentry, roofing, air conditioning, electrical, plumbing, framing, fire sprinklers and other specialty areas. Work can involve residential or commercial construction.

RISK FACTORS AND MITIGATING LOSSES

The highly specific nature of the work that artisan contractors perform, combined with the fact that they can work either under a GC or on their own individual projects, creates unique risk factors. As a result, there has been an increase in lawsuits brought against artisan contractors.

Three examples of more common liability lawsuits brought against artisan contractors include:

Products-Completed Operations

A residential deck was installed and collapsed two months later, causing injury to the client. After it was discovered that the artisan contractor had failed to properly secure the deck to the wall, a lawsuit was filed against the contractor. Fortunately, the products-completed operations portion of the contractor's general liability policy covered the costs associated with the judgment and defense costs.

Property Damage

While working on a specialty kitchen remodel, a drywall contractor accidentally caused damage to a water pipe, which resulted in water damage. Coverage under the artisan contractor's general liability policy covered costs associated with the cleanup and property damage.

Third-Party Bodily Injury

While a contractor was installing custom cabinetry in a personal residence, the homeowner tripped over the contractor's tools and badly injured his knee. The contractor's general liability policy covered costs associated with the injured party's medical expenses.

WORKING UNDER A GENERAL CONTRACTOR

Artisan contractors can fall under the category of a subcontractor and work on a contractual basis under a GC. Large construction companies and GCs often subcontract projects to artisan contractors, as it allows them to bid on larger jobs that may require a specialized skill that the GC typically doesn't provide. Working in this capacity, artisan contractors either must carry their own insurance or operate under the insurance and license held by the GC.

When working under a GC, artisan contractors are typically required to carry general liability insurance and provide proof of coverage with a certificate of insurance to the GC or property owner prior to starting a job. In addition, the GC will require being named as an additional insured and will request that a waiver of subrogation be included on the artisans' liability policy.

It's critical that your artisan contractor clients understand their insurance obligations under a project's contractual agreement and for you to advise them on having the correct insurance coverage.



TAKE NOTE!

Artisan contractors are at risk for liability claims arising from:

- Third-party bodily injury
- Property damage
- Personal injury
- Products-completed operations

GENERAL CONTRACTORS & TRANSFER OF RISK

One reason for the increased liability for artisan contractors involves the agreements made with the GC. Typically, to procure work from a GC, artisan contractors must agree to accept the transfer of risk. However, by accepting this risk, artisan contractors may be putting themselves at a disadvantage from a legal standpoint. The reason is that the GC's liability insurance, which is typically very broad, will dictate the types of coverages, limits and endorsements that will transfer to the specialty contractors.

What this comes down to is that each time an artisan contractor agrees to allow the GC to transfer the risk, the artisan assumes the entire liability. Unfortunately, this can create barriers for artisan contractors to accepting new projects, unless they are willing to assume the risk. It also can be a challenge to secure specialty insurance to cover the risk, and when coverage is found, it may be too costly.

GOING TO MARKET: MATCHING THE RIGHT RISK TO THE RIGHT COVERAGE

You can better assist your artisan contractors in selecting the right property and liability coverage that meets their specific needs if you have information pertaining to:

✔ **The Type of Work Performed.** Understanding the type of work your contractor clients will be doing can help to determine the right carrier in which to market the business.

For example, are they doing residential or commercial property? If both, get a breakdown of the percentage of each. Is work being done in new construction or are they dealing with existing structures/renovations? What about work on multifamily dwellings?

✔ **Annual Payroll and Receipts.** What is the business's annual payroll and what are its annual gross receipts by class?

✔ **Any Additional Insureds.** Know upfront whether the contractors will require AIs. Not having this information upfront can lead to an increase in premiums or even cancellation if the carrier won't provide coverage for other parties.

✔ **Claim Loss History.** Be sure to provide details of the nature of the claims and dates in your submission. Discussing prior claim history can not only help underwriters better understand the issues, but can also help you in risk-mitigation planning.

Take Note!

Subcontractors must carry their own insurance, which protects not only them, but also the artisan utilizing the subcontractor's services.

✔ **The Potential Use of Subcontractors.** It is not unusual for artisan contractors to hire subcontractors to assist with a particular part of a job. Know upfront whether and how often your client uses the services of subcontractors.

CLASSIFICATION CODE CHALLENGES

One of the issues that brokers can run into when placing an artisan contractor risk is determining the most appropriate classification code. In general, the insurance industry has no set established standard of what defines an artisan contractor. This can be a slippery slope, as it's important for artisan contractors to have coverage that matches their operations, liability exposure, and tools and equipment. As a result, carriers often select classification codes that are based on the type of operations the specialty contractor

performs, the contractor's role in the project (e.g., is he or she operating as a subcontractor or in a consultant capacity?), the number of employees, annual income, and size and scope of projects.

No matter what classification code your contractor clients fall under, it's important to take the time to understand everything you can about their operations. This includes working closely with the insurance carrier and the underwriter to make sure they understand the full scope of the risk to best determine the proper coverage.

CONTRIBUTING TO THE SUCCESS OF ARTISAN CONTRACTOR CLIENTS WITH THE RIGHT INSURANCE

In the course of their work, artisan contractors are at risk for third-party bodily injury, property damage, personal injury and products-completed operations exposures. These types of risks are typically covered under a general liability insurance policy. However, in addition to general liability, most artisan contractors also require additional insurance coverages, which may include:

» **Commercial Auto.** Going from one job site to the next, specialty contractors spend a lot of time running supplies, checking the progress of a job and working up bids on new projects. A commercial auto policy protects work trucks or other vehicles that belong to the business.

» **Commercial Property.** Clients with an office or shop will need property insurance to protect the building's contents.

» **Errors and Omissions.** E&O protects your clients if they are found liable for damages caused by designs, plans, advice or other professional services that they provide as part of their business.

» **Legal Expense.** Coverage insures against the costs involved with legal disputes and can also provide funding toward any legal action as a result of a dispute.

» **Inland Marine.** This option provides coverage for tools and equipment (including leased and rented), business property, etc.

» **Cyber and Data Breach.** This coverage provides protection against costs associated with an attack if customer data is exposed or if the contractor's system is infected or encrypted by a virus.

» **Builders' Risk / Course of Construction.** This option provides coverage against vandalism, theft and weather-related events for a project and other assets during construction.

AI endorsements may exclude completed operations, even though the underlying policy covers the exposure. Artisan contractors must be aware that the GC may not find this acceptable.



COMMON POLICY ENDORSEMENTS FOR ARTISAN CONTRACTORS:

✔ **Additional Insured.** The general intent of asking a specialty contractor to list another company as an AI is so the artisan's policy will respond to any claims that are sent directly to the party listed as the AI. For example, if a GC receives a claim that a cabinet the specialty contractor installed fell off the wall and injured the homeowner, the specialty contractor's policy should respond to the claim, provided the GC was listed as an AI.

✔ **Completed Operations.** This covers a contractor's liability to a third party after work has ended, until the end of the policy period. Typically, GCs will require completed operations from specialty subcontractors, as it protects the GC against a claim after a project has been completed.

Take Note!

An AI endorsement alone will usually cover only ongoing operations, with no coverage for completed work.

✔ **Per-Project Limits.** A typical general liability policy has a per-occurrence limit, which is the maximum the policy would respond to for one individual occurrence. It also has a general aggregate, which is the most that policy

would pay over its term. A per-project limits endorsement allows these limits to be reinstated for each occurrence. This additional layer of protection allows the general liability policy to respond to numerous claims as long as each claim was for a separate project.

✔ **Primary and Noncontributory**

» The primary wording in this common endorsement is generally used by the GC when using specialty subcontractors, making the subcontractor liable for a claim – even if the GC was shown to be partially negligent. However, to accomplish this, the policy must do so on a primary basis – meaning that the specialty subcontractor's general liability policy will pay first.

» The noncontributory wording, unless defined otherwise in the construction contract, means "not providing contribution." This requires the specialty subcontractor's policy to be the sole source of recovery – with no requested or expected contribution from the GC's insurance contract. This can be a major issue when the cost of the injury or damage exceeds the limit of liability provided by the specialty contractor's general liability policy.

✔ **Waiver of Subrogation.** This endorsement prevents one party's insurance carrier from pursuing a claim against the other contractual party in an attempt to recover money paid by the insurance company to resolve a covered claim.

If subrogation is waived, the insurance company cannot sue the other party to recover its losses. It is common for a GC to request this endorsement from a specialty subcontractor.



CONCLUSION

Artisan contractors provide a highly specialized service. For carpenters, painters, roofers, restoration experts and others, the uniqueness of the scope of work performed can make it a challenge to understand and secure the right insurance coverage. That's why, as a broker, it's important for you to work with a wholesaler that understands the unique needs of artisan contractors.

At Worldwide Facilities, the construction industry has been a target class of business for more than 50 years. Today, we have developed unsurpassed expertise in this arena, maintaining excellent relationships with the industry's key specialty managing general agent and brokerage markets, along with a high level of customer service to help our retail partners meet the needs of small-to-midsize artisan contractors and GCs.

To learn more, please contact a specialist below.

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